THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID

INVESTIGATION AS TO THE PROPRIETY
OF PROPOSED TARIFF CHANGES

RIPUC DOCKET NO. 4065

BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION

TESTIMONY AND EXHIBITS
OF DAVID J. EFFRON

ON BEHALF OF THE

DIVISION OF
PUBLIC UTILITIES AND CARRIERS

SEPTEMBER 15, 2009

RIPUC DOCKET NO. 4065
DIRECT TESTIMONY
OF DAVID J. EFFRON

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is David J. Effron. My business address is 12 Pond Path, North Hampton, New Hampshire, 03862.

Q. What is your present occupation?

A. I am a consultant specializing in utility regulation.

Q. Please summarize your professional experience.

A. My professional career includes over thirty years as a regulatory consultant, two years as a supervisor of capital investment analysis and controls at Gulf & Western Industries and two years at Touche Ross & Co. as a consultant and staff auditor. I am a Certified Public Accountant and I have served as an instructor in the business program at Western Connecticut State College.

Q. What experience do you have in the area of utility rate setting proceedings?

A. I have analyzed numerous electric, gas, telephone, and water filings in different jurisdictions. Pursuant to those analyses I have prepared testimony, assisted attorneys in case preparation, and provided assistance during settlement negotiations with various utility companies.

I have testified in cases before regulatory commissions in Alabama, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maine, Maryland, Massachusetts, Missouri, Nevada, New Jersey, New York, North Dakota, Ohio,

Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, and Washington.

Q. Please describe your other work experience.

A. As a supervisor of capital investment analysis at Gulf & Western Industries, I was responsible for reports and analyses concerning capital spending programs, including project analysis, formulation of capital budgets, establishment of accounting procedures, monitoring capital spending and administration of the leasing program. At Touche Ross & Co., I was an associate consultant in management services for one year and a staff auditor for one year.

Q. Have you earned any distinctions as a Certified Public Accountant?

A. Yes. I received the Gold Charles Waldo Haskins Memorial Award for the highest scores in the May 1974 certified public accounting examination in New York State.

Q. Please describe your educational background.

A. I have a Bachelor's degree in Economics (with distinction) from Dartmouth College and a Masters of Business Administration Degree from Columbia University

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Rhode Island Division of Public Utilities and Carriers ("the Division").

Q. What is the purpose of your testimony?

A. I am addressing the revenue requirement of the Rhode Island electric operations of The Narragansett Electric Company, d/b/a National Grid ("National Grid" or "the Company") based on a test year consisting of the twelve months ended December 31 2008 and a rate year consisting of the twelve months ending December 31, 2010. I also address the Distribution Adjustment Provision included in the Company's proposed tariff changes.

Q. Please summarize your testimony.

A. I have calculated a base rate revenue requirement of $242,384,000 for electric distribution service provided by National Grid in Rhode Island. The Company's revenue deficiency is $26,841,000, which is 12.459% of the revenues produced by the base rates presently in effect (Schedule DJE-1).

I also recommend that the Commission reject the Distribution Adjustment Provision that the Company includes in its proposed tariff changes.

III. REVENUE REQUIREMENT

A. SUMMARY

Q. Have you prepared a summary of the Company's rate year base rate revenue requirement?

A. Yes, I prepared a summary on Schedule DJE-1. On this schedule, I compare the Company's presentation of its revenue deficiency to the Division's recommendation.

I have begun with the Company's base rate cost of service. The base rate cost of service is comprised of operating expenses plus the return on rate base, as shown on my Schedule DJE-2. The total cost of service net of miscellaneous revenues is the revenue requirement from services that are provided pursuant to Commission approved base rates. The difference between the net revenue requirement and the rate year revenues earned from tariff services is the Company's base rate revenue deficiency.

National Grid has calculated a base rate revenue deficiency of $65,534,000, which is equal to 30.40% of rate year tariff revenues. I have calculated a revenue deficiency of $26,841,000, which is equal to 12.45% of rate year tariff revenues

B. COST OF SERVICE

Q. What are the elements of the cost of service?

A. The elements of the rate year cost of service are operation and maintenance expenses (with uncollectible accounts expense, which is derived from the other elements of the revenue requirement, shown separately), depreciation, taxes other than income taxes, income taxes, and return on rate base. These elements of the total cost of service are summarized on Schedule DJE-2.

Q. Are you proposing adjustments to the rate year cost of service calculated by the Company?

A. Yes. The Company has calculated a pro forma rate year base rate revenue requirement of $281,077,000. Based on the adjustments to the Company's position

that I have identified, I am proposing a net base rate revenue requirement of $242,384,000. I address the individual adjustments to the Company's calculated cost of service in the following testimony.

1. Operation and Maintenance Expenses

a. Incentive Compensation

Q. Does the Company include incentive compensation in pro forma test year operation and maintenance expenses?

A. Yes. As can be seen on Exhibit NG-RLO-2, pages 5-7, the Company includes incentive compensation (referred to there as "variable pay") in pro forma test year salary and wage expenses. The incentive compensation programs are described in the testimony of Company Witness Dowd. Based on Exhibit NG-RLO-2, test year operation and maintenance expense includes $701,000 of incentive compensation directly paid to Company employees and $1,707,000 of incentive compensation allocated from service company employees.

Q. In your opinion, is the entire incentive compensation expense appropriately recoverable in the Company's revenue requirement?

A. No. Based on the testimony of Mr. Dowd, at least 50% of the incentive compensation is based on the attainment of financial goals. Incentive compensation based on the attainment of financial goals, such as earnings or return on equity, should not be recoverable from ratepayers.

Q. Why is it inappropriate to include incentive compensation based on the attainment of financial goals in the utility's revenue requirement?

A. The attainment of financial targets, such as earnings or rate of return, is a shareholder-oriented goal, not a customer-oriented goal. For example, if all else is equal, higher rates will result in higher revenues, which in turn will result in higher earnings. Thus, including incentive compensation related to the achievement of earnings targets in the revenue requirement would, in effect, require customers to reward company management on a contingency basis for getting them to pay higher rates. If the incentive compensation program is successful in increasing earnings, the shareholders should be willing to reward management accordingly and absorb the cost of the program. As shareholders are the primary beneficiaries of increases to earnings, it should be those shareholders, not customers, who bear the cost of the incentive compensation related to earnings.

Q. Have you quantified the portion of incentive compensation based on the attainment of financial goals?

A. It is not possible to calculate the incentive compensation related to the attainment of financial goals precisely based on Mr. Dowd's testimony. However, as described in that testimony, at least one-half of the incentive compensation is based on the achievement of financial goals. Therefore, I propose to eliminate one-half of the incentive compensation, or $1,204,000, from the Company's cost of service (Schedule DJE-4).

b. Contracted Hiring Requirement

Q. Has the Company proposed to adjust test year operation and maintenance expenses to reflect minimum hiring levels required by certain union contracts?

A. Yes. The Company's union contracts require the hiring of additional employees to perform certain operation and maintenance functions. The specified increases in the hiring levels continue through April 2010. The Company is proposing to increase pro forma test year operation and maintenance expenses by $1,363,000 to reflect the additional expenses associated with the union hiring requirements through the 2010 rate year (Exhibit NG-RLO-2, page 16).

Q. Is this adjustment appropriate?

A. No. The Company has not identified any additional tasks that the new hires will be performing, and there is no sound reason to believe that the Company would agree to hire more workers just for the purpose of increasing expenses. In fact, based on the provisions in the union contracts that specify the new hires, it appears that the reason for the new hires is to reduce the Company's reliance on outside contractors to perform certain functions (response to Division Data Request 1-20). In the 2008 test year, the Company incurred approximately $10 million of outside contractor expense related to distribution operation and maintenance activities (response to Division Data Request 10-10), so the potential to replace the payments to outside contractors with in-house labor certainly exists.

Q. What do you recommend?

A. The Company has not established that the new hires that are the subject of the pro forma adjustment will actually result in any net increase to operation and maintenance expense. Based on the language in the union contracts requiring the new hires and the amount expended on outside contractors in the 2008 test year, it is highly likely that the increase to wage and salary expense related to the new hires will be offset by reductions to outside contractor expenses. Therefore, the Company's proposed pro forma adjustment to increase test year operation and maintenance expense by $1,363,000 for contracted union hiring requirements should be eliminated (Schedule DJE-4).

c. Customer Assistance Advocate Expense

Q. Please explain the Company's proposed pro forma adjustment for customer assistance advocate personnel.

A. .As described in the testimony of Mr. Wynter, the Company is proposing to add personnel to serve in a Consumer Advocacy role that would improve implementation of the Company's low income discount and other public benefit programs. Pro forma test year operation and maintenance expense has been increased by $182,000 to recognize the costs of two additional employees associated with this program (Schedule NG-RLO-2, page 16).

Q. Should this pro forma adjustment be included in the determination of the Company's revenue requirement?

A. No. The Company has not established that these additional employees are necessary or that National Grid is the appropriate party to fill the role of Consumer Advocate with regard to low income and other public benefit programs. Accordingly, I have reduced pro forma test year operation and maintenance expense by $182,000 to eliminate the cost of customer assistance advocate personnel from the Company's revenue requirement (Schedule DJE-4). I have also eliminated the related payroll taxes from pro forma taxes other than income taxes from the Company's cost of service (Schedule DJE-6).

d. Rate Case Expense

Q. Has the Company included rate case expense in pro forma test year operating expenses?

A. Yes. The Company includes $865,000 of rate case expense in pro forma test year operation and maintenance expenses. This annual expense level is based on normalizing the estimated cost of the present case, $1,730,000, over two years (Exhibit NG-RLO-2, page 18).

Q. In your opinion, is this reasonable?

A. No. The Company's has not had a rate case for a number of years. While economic conditions and other circumstances have changed over time, I do not believe that this history should be entirely ignored. Based on the time interval between the Company's cases in recent years, I believe that a normalization period of at least five years would be more appropriate. Normalizing the rate case cost over five

years rather than the two years reflected by the Company reduces annual rate case expense by $519,000 (Schedule DJE-4)

e. Customer Contact Activities

Q. Please describe the Company's pro forma adjustment for customer contact activities.

A. The Company intends to increase its collection efforts in order to control its write-offs of accounts receivable and uncollectible accounts expense. National Grid estimates that the increased efforts will lead to expenses of $376,000 over and above the expenses incurred in the 2008 test year and proposes to adjust 2008 test year operation and maintenance expense by this amount. The additional expenses relate mainly to increases in outbound and inbound call volume.

Q. Should actual test year expenses be adjusted to recognize the additional cost associated with the increased collection efforts?

A. No. The efforts should pay for themselves. That is, to the extent that the increased collection efforts are successful, write-offs and uncollectible accounts expense will be reduced accordingly. The Company should be willing to incur the incremental expense of increased collection efforts only to the extent that such efforts can reasonably be expected reduce the write-offs of accounts receivable, no more and no less. As these efforts should pay for themselves through decreased write-offs, it is unnecessary to increase test year operation and maintenance expenses for the

incremental cost of the collection efforts. Therefore, pro forma test year operation and maintenance expenses should be reduced by $376,000 (Schedule DJE-4).

f. Economic Development Program

Q. Has the Company adjusted test year operation and maintenance expense for the cost of its proposed Economic Development Pilot Program?

A. Yes. Pro forma test year operation and maintenance expense includes $1,000,000 for the Company's proposed Economic Development Pilot Program. As described in the testimony of Company Witness Fields, the purpose of this program is to enable National Grid to "become a significant contributor to economic development in Rhode Island."

Q. Should the $1.0 million expense of the proposed Economic Development Pilot Program be included in the Company's distribution service revenue requirement?

A. No. First, this expense is not necessary for the provision of distribution service. Second, the Company has not clearly established that being a significant contributor to economic development is a critical function of an electric distribution utility. Third, if the program is implemented and it is successful in retaining and adding load, it should pay for itself; that is, the incremental sales and revenues should be at least equal to the annual expense. Mr. Oliver provides additional analysis of the Company's proposed economic development program in his testimony.

Q. What do you recommend?

A. The $1,000,000 for the Economic Development Pilot Program should be eliminated from the Company's distribution service revenue requirement (Schedule DJE-4).

g. Uncollectible Accounts Expense

Q. Have you reviewed the Company's calculation of pro forma test year uncollectible accounts expense?

A. Yes. The Company calculated uncollectible accounts expense based on the average net write-offs as a percentage of revenues for 2007 and 2008. The calculation of the pro forma test year uncollectible accounts expense is shown on Exhibit NG-RLO-2, Page 25. As can be seen on this schedule, the Company includes transmission revenues and tracker revenues in the revenue base to which charge-off ratio is applied in the calculation of pro forma uncollectible accounts expense.

Q. What is the Company's stated reason for including transmission revenues in the base for calculating uncollectible accounts expense?

A. In response to Division Data Request 1-24, the Company stated that the transmission revenues are included in the calculation of the uncollectible accounts expense because the Company bears the risk and absorbs the uncollectible charge-off when the delivery charges related to transmission expenses are not paid.

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Q. Is this an appropriate reason to include the transmission revenues in the pro forma revenues to which the average charge-off rate is applied in the calculation of pro forma uncollectible accounts expense?

A. No. The Company's method includes uncollectible accounts expense properly allocable to transmission service in the determination of the distribution service revenue requirement. Uncollectible accounts expenses related to distribution service are assigned to the distribution cost of service, and uncollectible accounts expenses related to transmission service should be assigned to the transmission cost of service Therefore, the transmission revenues should be eliminated from the base in the calculation of pro forma uncollectible accounts expense applicable to distribution service.

Q. What is the effect of your proposed adjustment to the Company's pro forma uncollectible accounts expense?

A. The elimination of the transmission revenues from the base on which uncollectible accounts expense is calculated reduces pro forma uncollectible accounts expenses by $894,000 using the adjusted write-off percentage recommended by Mr. Gay.

Q. Have you also adjusted the uncollectible accounts expense to reflect your proposed base rate revenue requirement?

A. Yes. The allowance for uncollectible accounts is calculated as a percentage of the other components of the cost of service. Therefore, the pro forma uncollectible accounts expense is affected by the other adjustments to the Company's revenue requirement. My calculation of the uncollectible accounts expense on my proposed base rate revenue requirement using the adjusted write-off percentage recommended by Mr. Gay is shown on Schedule DJE-3.

Q. Is the Company also proposing to establish a mechanism to recover increases in uncollectible accounts expense related to delivery services to the extent such uncollectible accounts expense exceed the expense included in the establishment of the base rate revenue requirement in this case?

A. Yes. As explained in the testimony of Company Witness Wynter, National Grid is requesting that an adjustment mechanism be established whereby delivery related net write-offs in excess of $500,000 more than the uncollectible accounts expense included in the delivery services revenue requirement in this case would be subject to reconciliation and recovery.

Q. Is the Company's proposed reconciliation mechanism for increases in net write-offs of uncollectible accounts related to delivery service appropriate?

A. No. As a general matter, reconciliation mechanisms are contrary to sound ratemaking practice, as such mechanisms tend to either reduce or eliminate incentives to control costs authorized under standard ratemaking. The Company presents its proposal as a mechanism to mitigate potential financial impairment resulting from increases in uncollectible accounts expenses. However, the Company has not provided any measurement of potential financial impairment from increases in uncollectible accounts; nor has the Company compared the magnitude or volatility of uncollectible accounts expenses relative to other costs for which there is no reconciliation mechanism.

Q. In addition to these general concerns with the Company's proposal to reconcile delivery related uncollectible accounts expense, are there any specific problems with the mechanism presented by the Company?

A. Yes. First, the Company's proposal does not explicitly distinguish between increased write-offs that take place simply as a result of increased sales and increased write-offs that take place as a result of higher percentage of billed revenues being uncollectible. Obviously, to the extent that uncollectible accounts expense increase simply because of increased sales and revenue, no separate recovery of that increased uncollectible accounts expense would be necessary or appropriate.[1]

Second the Company's proposed mechanism is one-sided, in that it would permit the Company to recover increases in uncollectible accounts expense but would not require any symmetrical credit to customers if the write-offs turn out to be less than the uncollectible accounts expense included in the delivery service revenue requirement.

Q. Should the Company's proposed mechanism to reconcile increases in delivery service uncollectible accounts be approved?

A. No. Such reconciling mechanisms are appropriate only for expenses that are large, volatile, and beyond the utility company's control. The Company has not established that its proposed mechanism to reconcile increases in delivery service uncollectible accounts is necessary to protect its financial integrity. In addition, the mechanism as

[1] As proposed, the Company would be able to recover only because of circumstances beyond its control. However, it appears that an increase in uncollectible accounts related to an increase in sales could open the door to arguing that other circumstances also affected uncollectible accounts.

proposed has the potential to recover increases in write-offs due to increased sales and is also one-sided. Finally, the reconciling mechanism would shift risk from the Company to its ratepayers for an expense over which the Company has some control, but over which ratepayers have no control.

h. Storm Fund Accrual

Q. What is the status of the Company's storm find?

A. As of May 31, 2009 there was a surplus (credit balance) of $21,692,000 in the storm fund (response to Commission Data Request 1-107). This credit balance represents the cumulative excess of accruals to the fund recovered through rates over eligible storm fund costs incurred since the establishment of the fund. The present annual accrual to the storm find is $1,041,000. In addition, the storm fund is also credited for interest on the accumulated balance and 50% of attachment fee revenue in excess of $850,000.

Q. Are you proposing to modify the present storm fund accrual?

A. Yes. I believe that the present credit balance, along with the continuing credits for interest and attachment fee revenue, is more than adequate to provide for all but the most catastrophic of storms. Therefore, I am proposing to suspend the annual accrual to the storm fund. Suspension of the storm fund accrual has the effect of reducing pro forma test year operation and maintenance expenses by $1,041,000 (Schedule DJE-4).

i. Storm Damage Expense

Q. In addition to the accruals to storm fund, did the Company charge actual storm repair and restoration costs to operation and maintenance expenses in the 2008 test year?

A. Yes. If the costs of repairs and restoration associated with any particular storm fall below the threshold amount ($728,000 in 2008) those costs are charged to operation and maintenance expenses rather then being charged against the storm damage reserve (response to Division Data Request 23-1A). The Company charged $5,168,000 of such storm damage costs to operation and maintenance expense in 2008.

Q. How does that compare to storm damage costs charged to operation and maintenance expense in other recent years?

A. It is significantly higher. In response to Division Data Request 23-1B, the Company provided the storm damage costs charged to operation and maintenance expense in the years 2004 – 2008. In the years 2004 – 2007, such costs ranged from $437,000 to $4,113,000. The storm damage costs charged to expenses in 2008 was well in excess of the normal level of such expenses in other recent years.

Q. Are you proposing to adjust the level of storm damage expenses included in the Company's revenue requirement?

A. Yes. The storm damage costs charged to expense vary widely from year to year. The expense included in the revenue requirement should reflect a normal level of

expense that the Company can reasonably expect to incur on a prospective basis. The expense incurred in 2008 was clearly higher then the normal level of expense and should be normalized for the purpose of determining the Company's revenue requirement.

Q. What do you recommend?

A. The average of storm damage costs charged to operation and maintenance expense in the years 2004 – 2008 was $3,164,000. I believe this five year average is reasonably representative of the normal annual level of storm damage expense that the Company can expect to incur overt time. This five years average is $2,001,000 less than the storm damage expense incurred in 2008. Therefore, I propose to reduce pro forma test year operation and maintenance expenses by $2,001,000, in order to normalize the storm damage expenses included in the Company' revenue requirement (Schedule DJE-4).

j. Injuries and Damages Expense

Q. What was the amount of injuries and damages expense recorded by the Company in the 2008 test year?

A. The injury and damages expense (Account 925) recorded by the Company in 2008 was $7,055,000.

Q. How does that compare to injuries and damages expenses recorded in other recent years?

A. It was well in excess of the injuries and damages expenses in other recent years. For example, in 2007 the injuries and damages expense was $3,888,000, and the average expense in the years 2005 – 2007 was approximately $4.2 million.

Q. Has the Company explained why the injuries and damages expense was so much higher in 2008?

A. Yes. In response to Division Data Request 1-29, the Company noted that the increase in the 2008 expense over the 2007 expense was due to an increase of $2.5 million to the claims reserve. In response to Division Data Request 23-3, the Company further explained that the increase in the claims reserve was related to financial terms associated with the potential settlement of litigation of a case from 2004.

Q. Is the magnitude of the increase to the claims reserve recorded in 2008 a normal, recurring expense?

A. No. Based on the Company's description of the circumstances and the effect of this increase to the reserve on the expense recorded in 2008, an adjustment to the claims reserve of this magnitude is not a normal, recurring event.

Q. Are you proposing to adjust the test year injuries and damages expenses for the purpose of determining the Company's revenue requirement?

A. Yes. As the $2.5 million increase to the reserve for injuries and damages is not a normal, recurring expense that the Company is likely to record on annual basis

prospectively, it should be eliminated from the cost of service. Therefore, I am proposing to reduce pro forma injuries and damages expense by $2,500,000 (Schedule DJE-4). It should be noted that even after this adjustment, the pro forma injuries and damages expense included in the Company's cost of service is still greater than the average injuries and damages expense recorded in the years 2005 – 2007.

k. Outside Legal Fees

Q. Have you reviewed the expenses for outside legal services incurred by the Company in the 2008 test year?

A. Yes. The response to Commission Data Request 1-93 listed outside legal fees incurred in each of the last three years. Further detail was provided in the response to Division Data Request 10-27.

Q. Are you proposing any adjustments to the 2008 test year expense for outside legal fees?

A. Yes. As described by the Company in response to Division Data Request 10-27, the expenses incurred in 2008 include $419,000 of legal fees related to the Constellation Energy FCM Dispute Matter involving the applicability of the fuel adjustment factor to the calculation of certain power supply payments. It is my understanding that this matter has now been resolved. Therefore, this expense will not be incurred prospectively and should be removed from the Company's revenue

requirement. Accordingly, I have reduced pro forma test year expenses by $419,000 (Schedule DJE-4).

l. Load Response Credit

Q. Did the Company receive a load response credit from the Independent System Operator ("ISO") in 2009?

A. Yes. Based on the response to Division Data Request 1-29, the Company received an ISO load response credit of $300,000 in 2009. The response to the data request also appears to indicate that the credit received in 2009 is applicable to 2008 expenses. The ISO load response credit is a reduction to Account 910 – Miscellaneous Customer Service and Informational Expense, which is a component of the distribution service revenue requirement.

Q. Are you proposing to adjust 2008 test year operation and maintenance expenses for the ISO load response credit received in 2009?

A. Yes. As noted above, based on the Company's response to Division Data request 1-29, it appears that credit received in 2009 was actually applicable to 2008. Therefore, test year operation and maintenance expense should be reduced by $300,000 to reflect the ISO load response credit received in 2009 (Schedule DJE-4). In response to Division Data Request 23-2, the Company noted that it expects such credits to decrease in the future. However, it is my understanding that the purpose of credits is to compensate the Company for expenses incurred in administering the load response

program. Thus, it would appear that future decreases in the level of credits would be based on decreased administrative costs.

m. Merger Synergies and Costs to Achieve

Q. Has the Company included expense adjustments related to merger synergies and the costs to achieve ("CTA") those synergies in its pro forma cost of service?

A. Yes. The Company has reflected synergies and CTA associated with the acquisition of KeySpan by National Grid USA. The Company estimates that the annual "steady state" synergies from the National Grid/KeySpan transaction will be $8,600,000. This exceeds the estimated synergies of $2,400,000 achieved in the 2008 test year by $6,200,000. The Company thus proposes a pro forma adjustment to reduce pro forma expenses by $6,200,000 to recognize the excess of the rate year synergies over test year synergies. This pro forma adjustment is reduced by $2,100,000 amortization of CTA and by $3,250,000 to recognize the 50% investors' share of net synergy savings.[2] The net effect of the Company's proposed pro forma adjustments is a reduction to pro forma expenses of $850,000. National Grid is also proposing to include the $2,100,000 CTA amort1zation and the investors 50% of net synergies of $3,250,000, a total of $5,350,000, in its cost of service in future cases arising in the next ten years (response to Division Data Request 1-34).

[2] The $3,250,000 is calculated as one half of steady state annual savings of $8,600,000 net of $2,100,000 amortization of costs to achieve.

Q. Are you proposing to modify the synergies (net of CTA) amortization included in the determination of the Company's prospective rate year revenue requirement in this case?

A. Yes. The total of CTA allocable to Narragansett Electric Company is $16,005,000. Of this amount, $8,610,000 is incurred in Year 1 and Year 2 following the merger (Schedule NG-RLO-3, page 3). The CTA incurred in Year 1 and Year 2 have obviously not been explicitly recovered from customers. However, the total synergy savings realized in Year 1 and Year 2 are estimated to have been $9,471,000. Just as clearly, these synergy savings have been of no benefit to customers and have been retained entirely for the benefit of shareholders. In effect, these retained synergy savings have recovered (or, in this case, somewhat more than recovered) the CTA incurred in Year 1 and Year 2. That is, the CTA incurred in Year 1 and Year 2 have more than paid for themselves by expense reductions retained by shareholders. Consequently, the Year 1 and Year 2 CTA should not also be recovered from ratepayers prospectively, as this would result in a double recovery.

The CTA to be recovered prospectively is the total CTA of $16,005,000 less the CTA in Year 1 and Year 2 of $8,610,000, or $7,395,000. I recommend that this amount be amortized over eight years, the remainder of the ten year time frame considered in the Company's synergy savings analysis. This results in annual CTA expense of $924,000, which is $1,176,000 less than the CTA amortization included by the Company in its revenue requirement. Accordingly, I recommend that pro forma rate year expenses be reduced by $1,176,000 (Schedule DJE-4).

Q. Should the Company's proposal to include its retained share of the savings and the CTA amortization in its revenue requirement in future cases be subject to conditions?

A. Yes. The inclusion of the expected synergy savings in the present case should not be deemed to be a finding that the savings have actually been achieved *and* will continue in effect for the next ten years. The Commission should not approve the inclusion of these expenses in future rate cases unless the Company can demonstrate that the forecasted "steady state" synergies have been achieved, are actually continuing, and are inuring to the benefit of ratepayers. Further, if the Company can establish the synergy savings have been achieved and are continuing, the shared savings expense and CTA amortization (at the reduced level of $924,000) should be included for only eight years, which would approximately match the time frame of the synergy savings study.

2. Depreciation Expense

Q. Have you reflected an adjustment to test year depreciation expense in your calculation of the rate year cost of service?

A. Yes. As depreciation expense is calculated by applying the relevant depreciation accrual rates to the depreciable plant in service, my proposed adjustment to plant in service (addressed in my testimony on rate base) affects the rate year depreciation expense. The adjustment to depreciation expense resulting from my proposed adjustment to plant in service is shown on Schedule DJE-5.

3. Taxes Other Than Income Taxes

Q. Are you proposing any adjustments to the taxes other than income taxes included by the Company in its revenue requirement?

A. Yes. Certain of my adjustments to operation and maintenance expenses entail the elimination of wages and salaries. Consistent with those adjustments, I am proposing to eliminate the related payroll taxes. My adjustments to payroll taxes are shown on Schedule DJE-6.

I am also proposing to adjust the pro forma municipal tax expense. On Schedule NG-RLO-2, page 26, the actual test year municipal tax expense includes the amortization of a refund from the City of Providence that reduced the 2008 expense by $883,000. The Company did not include the amortization of the refund in the pro forma rate year municipal tax expense. In response to Division Data Request 1-25, the Company acknowledged that the amortization of the refund should be included in the rate year municipal tax expense. Therefore, on Schedule DJE-6, I have reduced pro forma municipal tax expense by $883,000 to reflect the amortization of the refund from the City of Providence.

4. Income Tax Expense

Q. Have you calculated the pro forma income tax expense to be included in the Company's revenue requirement?

A. Yes. I have calculated the pro forma income tax expense on my Schedule DJE-7. I have used what is commonly referred to as the "return method" of calculating pro forma income tax expense. This method begins by calculating the taxable income

base (that is, the net income after income tax expense) by applying the weighted return on equity to the rate base and adjusting the product of that calculation by permanent tax reconciling items. To determine the taxable income, the adjusted net income must then be grossed up, as the income tax expense itself is not deductible for federal income taxes. Finally, the income tax rate of 35% is applied to the taxable income to calculate the pro forma income tax expense to be included in the Company's revenue requirement. This method has traditionally been employed by the Commission in calculating pro forma income tax expense. Although the mechanics of this calculation are different from the method shown on Schedule NG-RLO-2, page 29, there is no substantive difference.

5. Return on Rate Base

Q. How is the return on rate base to be included in the total revenue requirement calculated?

A. The return on rate base is calculated by multiplying the rate of return by the rate base. The rate base is the net investment in facilities necessary to provide utility service. I am proposing adjustments to rate base, and I have incorporated the recommendation of Mr. Kahal on rate of return into my calculation of the required return on rate base.

a. Rate Base – Net Plant in Service

Q. How did the Company determine the balance of gross utility plant that it is proposing to includes in its pro forma rate base?

A. The gross utility plant included in rate base is the forecasted average balance for the twelve months ending December 31, 2010, the Company's rate year. The Company began with the actual balance of plant as of December 31, 2008, the end of the test year, and then adjusted that balance for forecasted additions to and retirements from plant in through December 31, 2010. The average balance of gross utility plant forecasted by the Company for its rate year is $1,232,747,000 (Schedule NG-RLO-2, page 34).

Q. Have you analyzed the Company's forecast of gross utility plant for the twelve months ending December 31, 2010?

A. Yes. I have reviewed the budgeted additions to plant for 2009 and 2010. I have also compared the Company's forecasts of additions and retirements in those fiscal years to actual additions and retirements in recent years, and I have reviewed the actual and budgeted additions to plant in service from January 2009 through July 2009.

Q. Based on your analysis, are you proposing to adjust the forecasted plant balance included in rate base by the Company?

A. Yes. Referring to Attachment NG-RLO-2, Page 34, it can be seen that the Company is forecasting additions to plant in service of $59,949,000 in the twelve months ending December 31, 2009 and $75,932,000 in the twelve months ending December 31, 2010. These forecasts substantially exceed the general level of actual additions to plant in service in recent years (with the exception of 2008) and also the rate of actual

additions to plant in service since the end of the test year. Accordingly, I recommend that the Company's forecast of additions to plant in service be modified.

Q. How are you proposing to modify the Company's forecast of plant additions through the end of the rate year?

A. My proposed adjustments to the Company's forecast of rate year plant in service and the accumulated reserve for depreciation are shown on Schedule DJE-8.1. The Company provided the actual plant in service as of June 30, 2009 in the response to Division Data Request 1-3. As this reflects actual additions to, and retirement from, plant in service through June 30, 2009, I believe that it serves as appropriate starting point for the projection of rate year plant in service.

The next step on Schedule DJE-8.1 is to project the plant in service as of the end of 2009. Based on the response to Division Data Request 23-5, the gross additions to plant in service averaged approximately $4 million per month from January through July 2009, with the additions being relatively steady from month to month. Therefore, it is reasonable to project the plant in service as of December 31, 2009 by assuming that the net balance of plant in service will increase by the same amount in the last six months of 2009 as it did in the first six months. This results in a projected balance of plant in service of $1,191,604,000 as of December 31, 2009.[3]

Q. What is the next step of your projection of the rate year plant in service?

[3] This projection also implicitly assumes that the retirements from plant in service will take place in the last six months of 2009 at the same rate as they did in the first six months.

A. The next step is to project the additions to, and retirements from, plant in service in 2010. The Company has forecasted plant additions of $75.9 million in 2010, an increase of approximately 25% over the forecasted plant additions in 2009, and an increase of approximately 58% over the actual rate of plant additions for the first seven months of 2009. However, the trend of plant additions to date in 2009 shows no signs of increasing to anything like the level forecasted by the Company for 2010. In fact, the additions to plant in the first seven months of 2009 were well below the rate of plant additions in 2008. Based on the response to Division Data Request 23-5, the actual plant additions in 2009 have averaged $4,025,000 per month, which translates into an annual rate of plant additions of $48,300,000. I have used this as the annual rate of plant additions in 2010 for the purpose of calculating the plant in service as of the end of the rate year and the average balance of plant in service for the rate year.

The Company has forecasted retirements based on 13.37% of plant additions. I have applied this percentage to the projected rate year plant additions, which results in projected rate year retirements of $6,458,000.

Q. What is the effect of your proposed adjustments to the Company's forecast of plant additions through the end of the rate year?

A. I have calculated an average rate year balance of plant in service of $1,212,525,000 (Schedule DJE-8.1). This is $20,222,000 less than the balance of rate year plant in service forecasted by the Company (Schedule DJE-8).

As the pro forma rate year depreciation expense is calculated by applying the composite depreciation rate to the average balance of rate year plant, my proposed adjustment to plant in service also affects the pro forma depreciation expense. On Schedule, DJE-5, I have calculated a reduction of $688,000 to pro forma rate year depreciation expense related to the adjustment to plant in service.

Q. Have you also adjusted the projected rate year balance of the accumulated reserve for depreciation?

A. Yes. My calculation of the rate year balance of the accumulated reserve for depreciation is also shown on Schedule DJE-8.1. As with plant in service, I have used the actual balance of accumulated depreciation at June 30, 2009 (response to Division Data Request 1-3) as my starting point. Consistent with the method used to project plant in service, I have projected the accumulated depreciation as of December 31, 2009 by assuming that the net balance will increase by the same amount in the last six months of 2009 as it did in the first six months.[4]

With regard to the projection of the rate year balance of accumulated depreciation, I have used a method similar to that of the Company. The addition to the reserve for depreciation expense reflects my rate year depreciation expense. The Company calculated the cost of removal as a percentage of plant additions. However, based on the response to Division Data Request 1-1, there does not appear to be any correlation between the cost of removal and plant additions.

[4] This implicitly assumes that the depreciation expense, retirements, and cost of removal will be the same in the last six months as in the first six months.

Therefore, I have used the actual average cost of removal for the years 2006-2008 as the estimate of cost of removal in the rate year.

I have calculated an average rate year depreciation reserve balance of $518,922,000 (Schedule DJE-8.1). This is $2,397,000 greater than the balance projected by the Company (Schedule DJE-8).

b. Rate Base – Cash Working Capital

Q. How did the Company determine the cash working capital allowance that it includes in its rate base?

A. The calculation of the Company's cash working capital allowance is addressed in the testimony of Mr. O'Brien and summarized on Schedule NG-RLO-2, Page 38. The cash working capital is based on a study that measures the cash requirement to bridge the gap between the disbursement of cash to pay expenses and the receipt of cash for service rendered to cover the relevant rate year expenses.

Q. Are you proposing to adjust the cash working capital requirement calculated by the Company?

A. Yes. I am proposing two modifications. First, the cash working capital summary on Schedule NG-RLO-2, Page 38 includes an allowance for CTC Expense. I am proposing to remove this item from the cash working capital allowance included in the distribution service rate base. Second, I am proposing to modify the CWC percentage assigned to municipal taxes in the calculation of the cash working capital allowance.

Q. Why should the CTC Expense be removed from the cash working capital allowance included in the distribution service rate base?

A. The CTC (Contract Termination Charge) is recovered by means of a separate fully reconciling rate mechanism, pursuant to settlements in FERC Docket Nos. ER97-680-000 and ER98-6-000. All CTC costs eligible for recovery are addressed in those settlements. To the extent that the CTC is under or over-recovered in any given year, a return is calculated on such under or over-recovery and included in the reconciliation. To my knowledge, there is no provision for a separate return on any cash working capital effect of the CTC expense, and it is inappropriate to include a cash working capital allowance for CTC expense in the determination of the distribution service revenue requirement. Elimination of the CTC expense reduces the cash working capital allowance by $371,000 (Schedule DJE-8.2).

Q. What modification to the CWC percentage assigned to municipal taxes in the calculation of the cash working capital allowance are you proposing?

A. The municipal tax expense on Schedule NG-RLO-2, page 38 shows the municipal tax expense as having a 33.77% CWC percentage. In other words, the Company has calculated that the municipal tax expense is paid out approximately 123 days before that expense is recovered in rates from customers. By contrast in Docket No. 3943, (National Grid – RI Gas), the same company calculated a municipal tax CWC percentage of -8.82%, which indicates that this expense is recovered in rates approximately 32 days before cash is disbursed in payment of the expense. As the

municipal taxes are paid from the same utility company to substantially the same taxing authorities, such a discrepancy is not logical.

In response to Division Data Request 1-5, the Company explained the CWC percentage in Docket No. 3943 was calculated using an annual period of January to December, while the calculation on Schedule NG-RLO-2, Page 38 reflects the use of an annual period July to June, which matches the "typical" fiscal period for municipal taxes. In my opinion, this is not an adequate explanation of the discrepancy. The only relevant factor is when the expense is recovered in rates in comparison to when cash is disbursed in payment of the expense. The Company has cited no valid reason why the lead or lag for this item should be different in this case from what it was in the gas rate case. Therefore, the CWC percentage for municipal taxes on Schedule NG-RLO-2, Page 38 should be modified.

Q. What do you recommend?

A. I recommend that the CWC percentage assigned to municipal taxes in this case be set at -8.82%, the same percentage that was found to be appropriate in the recent National Grid gas rate case. This modification reduces the cash working capital allowance by $8,477,000 (Schedule DJE-8.2).

c. Accumulated Deferred Income Taxes

Q. Are you proposing to adjust the Company's forecasted rate year balance of accumulated deferred income taxes ("ADIT")?

A. Yes. Consistent with my calculation of rate year plant in service and depreciation reserve, I have begun with the actual balance of June 30, 2009, as shown in the response to Division Data Request 1-3. I then projected that balance to the mid-point of the rate year by assuming the balance would grow at the same rate that it did from March 31, 2009 to June 30, 2009. This method results in a projected rate year balance of $119,964,000, which $6,876,000 greater than the rate year balance forecasted by the Company (Schedule DJE-8).

d. Rate of Return

Q. What rate of return have you used to calculate the return requirement to be included in the total cost of service?

A. I have used the rate of return of 7.78% proposed by Mr. Kahal to calculate the required return on rate base.

Q. What return on rate base have you calculated?

A. I have calculated a required return on rate base of $45,537,000 (Schedule DJE-8) and included this return requirement in the Company's total revenue requirement.

IV. DISTRIBUTION ADJUSTMENT PROVISION

Q. Have you reviewed the Distribution Adjustment Provision included in the Company's proposed tariffs?

A. Yes. I have addressed the Delivery Bad Debt element of the proposed Distribution Adjustment Provision above. The remainder of the Distribution Adjustment

Provision relates to changes in the Company's revenue requirements resulting from legislative, regulatory, and accounting changes and from regulatory reallocation of costs to or from the distribution function.

Q. Should the Distribution Adjustment Provision as proposed by the Company be approved?

A. No. The Company's tariff language in the proposed Distribution Adjustment Provision is based on language in the Settlement in Docket 2930 (Narragansett Electric Company, 2000) that established a rate plan with a five year rate freeze. The purpose of that language in the Settlement in Docket 2930 was to allow Narragansett to adjust rates for exogenous events that might occur during the term of the rate freeze, because Narragansett was otherwise prohibited from adjusting rates. The present case does not entail a freeze on National Grid's rates for five years or for any other period. Therefore, the tariff provisions to address exogenous events are unnecessary.

Q. Does this conclude your direct testimony?

A. Yes.

Schedule DJE-1

NATIONAL GRID - RI ELECTRIC
RATE YEAR REVENUE REQUIREMENT
($000)

	(A) Company Position	Adjustments		Division Position
Base Rate Cost of Service	$ 288,776	$ (38,693)	(B)	$ 250,083
Commodity Cost Tracker	9,752	-		9,752
Total Cost of Service	298,528	(38,693)		259,835
Commodity Cost Tracker	9,752	-		9,752
Other Miscellaneous Revenues	7,699	-		7,699
Base Rate Revenue Requirement	$ 281,077	$ (38,693)		$ 242,384
Base Rate Revenues, Present Rates	215,543	-		215,543
Revenue Deficiency	$ 65,534	$ (38,693)		$ 26,841
Percentage Rate Increase	30.40%			12.45%

Notes:

(A) NG-RLO-1, Page 1

(B) Schedule DJE-2

Schedule DJE-2

NATIONAL GRID - RI ELECTRIC
COST OF SERVICE
($000)

	(A) Company Position	Adjustments		Division Position
Uncollectible Accounts Expense	$ 5,020	$ (2,924)	(B)	$ 2,096
Other Op & Maint Expense	142,438	(19,260)	(C)	123,178
Depreciation and Amortization	41,466	(688)	(D)	40,778
Taxes Other Than Income Taxes	24,060	(962)	(E)	23,098
Loss on Reacquired Debt	686			686
Interest in Customer Deposits	75			75
Income Taxes	18,999	(4,366)	(F)	14,633
Return on Rate Base	56,031	(10,494)	(G)	45,537
Total Base Rate Cost of Service	$ 288,776	$ (38,693)		$ 250,083
Commodity Cost Tracker	9,752	-		9,752
Total Cost of Service	$ 298,528	$ (38,693)		$ 259,835

Sources:

(A) NG-RLO-2, Page 1
(B) Schedule DJE-3
(C) Schedule DJE-4
(D) Schedule DJE-5
(E) Schedule DJE-6
(F) Schedule DJE-7
(G) Schedule DJE-8

Schedule DJE-3

NATIONAL GRID - RI ELECTRIC
ADJUSTMENTS TO UNCOLLECTIBLE ACCOUNTS EXPENSE
($000)

Base Rate Cost of Service Excl. Uncollectible Accounts	(A)	$ 247,987
Transition and Conservation Revenues	(B)	45,130
Total Revenues Subject to Write-offs		293,117
Grossed-up Write-off Rate		0.715%
Pro Forma Uncollectible Accounts Expense		$ 2,096

Sources:

(A) Schedule DJE-2
(B) NG-RLO-2, Page 25
(C) Testimony of Mr. Gay 0.0071/(1-0.0071)

Schedule DJE-4

NATIONAL GRID - RI ELECTRIC
OPERATION AND MAINTENANCE EXPENSE
($000)

Incentive Compensation	(A)	$ (1,204)
Contracted Hiring Requirement	(B)	(1,363)
Customer Assistance Advocacy	(C)	(182)
Rate Case Expense	(D)	(519)
Customer Contact Activities	(E)	(376)
Economic Development Program	(F)	(1,000)
Vegetation Management	(G)	(1,985)
Inspection and Maintenance	(G)	(2,094)
Affiliate Expenses	(H)	(3,100)
Storm Fund Accrual	(I)	(1,041)
Storm Damage Expense	(J)	(2,001)
Injuries and Damages	(K)	(2,500)
Legal Fees	(L)	(419)
ISO Load Response Credit	(M)	(300)
Net Merger Synergy Savings (CTA)	(N)	(1,176)
Total Adjustment to Operation and Maintenance Expense		$ (19,260)

Sources

(A)	Total Incentive Comp Expense		2,408	NG-RLO-2, pp. 5-7
	Financial Goals		1/2	Dowd direct, pp. 8-9
	Comp. Based on Financial Goals		1,204	
(B)	NG-RLO-2, Page 15			
(C)	NG-RLO-2, Page 16			
(D)	NG-RLO-2, Page 18	1730/5-865		
(E)	NG-RLO-2, Page 21			
(F)	NG-RLO-2, Page 22			
(G)	Testimony of Mr. Hahn			
(H)	Testimony of Ms. Smith			
(I)	COMM 1-107			
(J)	DIV 23-1B	(5168+2860+4114+3256+437)/5-5168		
(K)	DIV 1-29, DIV 23-3			
(L)	DIV 10-27			
(M)	DIV 1-29			
(N)	NG-RLO-3, Pages 1 and 5	(16005-6161-2449)/8-2100		

Schedule DJE-5

NATIONAL GRID - RI ELECTRIC
ADJUSTMENTS TO DEPRECIATION EXPENSE
($000)

Adjustment to Plant in Service	(A)	$	(20,222)
Composite Book Depreciation Rate	(B)		3.40%
Adjustment to Pro Forma Depreciation Expense		$	(688)

Sources:
(A) Schedule DJE-8
(B) NG-RLO-2, Page 28

Schedule DJE-6

NATIONAL GRID - RI ELECTRIC
ADJUSTMENTS TO TAXES OTHER THAN INCOME TAXES
($000)

Payroll Taxes		
Contracted Hiring Requirement	(A)	$ (70)
Customer Assistance Advocacy	(B)	(9)
Municipal Taxes	(C)	(883)
Total Adjustment to Taxes Other Than Income Taxes		$ (962)

(A) NG-RLO-2, Page 15
(B) NG-RLO-2, Page 16
(C) Response to Division Data Request 1-25

Schedule DJE-7

NATIONAL GRID - RI ELECTRIC
INCOME TAX EXPENSE
($000)

Rate Base	DJE-8	$ 585,606
Weighted Return on Equity	DJE-9	4.81%
Preliminary Taxable Income Base		28,145
Tax Reconciling Items	NG-RLO-2, Page 29	(1,269)
Taxable Income Base		26,876
Taxable Income	Taxable Income Base/.65	41,347
Income Tax Rate		35%
Current and Deferred Income Tax Expense		14,471
Unfunded Deferred Tax Catch-up	NG-RLO-2, Page 29	650
Amortization of ITC	NG-RLO-2, Page 29	(488)
Total Rate Year Income Tax Expense		$ 14,633

Schedule DJE-8

NATIONAL GRID - RI ELECTRIC
RETURN ON RATE BASE
($000)

	(A) Company Position	Adjustments		Division Position
Electric Plant in Service	$ 1,232,747	(20,222)	(B)	$ 1,212,525
Plant Held for Future Use	204			204
Contributions in Aid of Construction	(103)			(103)
Accumulated Depreciation	(516,525)	(2,397)	(B)	(518,922)
Net Plant	716,323	(22,619)		693,704
Materials and Supplies	6,375			6,375
Prepaid Expenses	2			2
Loss on Reacquired Debt	4,592			4,592
Cash Working Capital	17,789	(8,848)	(C)	8,941
Sub-total	28,758	(8,848)		19,910
				-
Accumulated Deferred FIT	113,088	6,876	(D)	119,964
Customer Deposits	3,283			3,283
Injuries and Damages Reserve	4,762	-		4,762
Sub-total	121,133	6,876		128,009
Net Rate Base	623,948	(38,342)		585,606
Rate of Return	8.98%	-1.20%	(E)	7.78%
Return on Rate Base	$ 56,031	$ (10,494)		$ 45,537

Sources

(A) NG-RLO-2, Page 30

(B) Schedule DJE-8.1

(C) Schedule DJE-8.2

(D) Actual Balance 6/30/09 118,736 DIV 1-3
Projected Increase to 6/30/10 1,228 *
Projected Avg. Rate Year Balance 119,964
* Based on increase from 3/31 to 6/30

(E) Schedule DJE-9

Schedule DJE-8.1

NATIONAL GRID - RI ELECTRIC
ADJUSTMENT TO RATE YEAR PLANT IN SERVICE AND ACCUM DEPRECIATION
($000)

Plant in Service 12/31/08	(A)	$1,147,926
Plant in Service 06/31/09	(B)	1,169,765
Increase		21,839
Projected Plant Balance 12/31/09		1,191,604
Projected Additions - 2010	(C)	48,300
Projected Retirements - 2010	(D)	6,458
Projected Plant Balance 12/31/10		$1,233,446
Average Rate Year Plant Balance		$1,212,525
Accumulated Depreciation 12/31/08	(E)	$ 477,960
Accumulated Depreciation 6/30/09	(B)	491,147
Increase		13,187
Projected Balance 12/31/09		504,334
Rate Year Depreciation Expense	(F)	40,778
Retirements		6,458
Cost of Removal	(G)	5,145
Projected Balance 12/31/10		$ 533,509
Average Rate Year Balance		$ 518,922

Sources

(A) NG-RLO-2, Page 34
(B) Division 1-3
(C) Division 23-5, 12*Avg. Monthly Plant Additions
(D) Workpaper NG-RLO-28, Page 2 13.37% * Additions
(E) NG-RLO-2, Page 35
(F) Schedule DJE-2
(G) Workpaper NG-RLO-28, Page 2, Division 1-1
(2940+5327+7169)/3

Schedule DJE-8.2

NATIONAL GRID - RI ELECTRIC
CASH WORKING CAPITAL
($000)

Municipal Taxes		
Adjusted Rate Year Municipal Taxes	(A)	19,202
Proposed Net Lag	(B)	-8.82%
CWC Dollars		(1,694)
CWC Dollars per Company	(A)	6,783
Adjustment to Company Position		(8,477)
Eliminate CTC Working Capital	(A)	(371)
Total Adjustment to Cash Working Capital		(8,848)

Sources:

(A) NG-RLO-2, Page 38, Schedule DJE-6

(B) Docket No. 3943, Attachment NG-MDL-2, Page 1

Schedule DJE-9

NATIONAL GRID - RI ELECTRIC
RATE OF RETURN
($000)

Company Position

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	44.80%	6.79%	3.04%
Short Term Debt	5.00%	2.50%	0.13%
Preferred Stock	0.20%	4.50%	0.01%
Common Equity	50.00%	11.60%	5.80%
Total Capital	100.00%		8.98%

Division Position

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	47.33%	6.10%	2.89%
Short Term Debt	4.98%	1.60%	0.08%
Preferred Stock	0.19%	4.50%	0.01%
Common Equity	47.50%	10.10%	4.80%
Total Capital	100.00%		7.78%

Sources:
Attachment NG-RLO-2, Page 32
Testimony of Mr. Kahal